

Message Text

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ACTION SS-25

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R 191444Z JUN 78
FM AMEMBASSY WARSAW
TO SECSTATE WASHDC 5719

C O N F I D E N T I A L SECTION 1 OF 2 WARSAW 5175

EXDIS

EO 11652XGDS-1,3,4
TAGS: EFIN, PL
SUBJ: US-POLISH FINANCIAL CONSULTATIONS

REF: STATE 146342,

1. BEGIN SUMMARY: WE WELCOME THE NEWS IN REF THAT
AMBASSADOR SPASOWSKI HAS RECOGNIZED THE NEED FOR MORE REGULAR
FINANCIAL DISCUSSIONS AND FOR A NEW APPROACH ON
POLAND'S FINANCIAL PROBLEMS. IN ADDITION TO EXPANDING AND
CLARIFYING SOME OF THE INFORMATION THEY HAVE ALREADY MADE
AVAILABLE (REF B), THE POLES SHOULD BE ASKED TO INDICATE ANY
OTHER SOURCES OF FINANCE WHICH THEY PLAN TO TAP, AND TO SHOW
HOW ANY SPECIAL ASSISTANCE REQUESTED FROM THE USG WOULD FIT
INTO THIS PICTURE.

2. OUR REVIEW OF THE STATISTICS AND INFORMATION PROVIDED ON
MAY 27, INDICATES THAT THE POLISH FINANCIAL SITUATION,
WHILE BAD, IS LESS ACUTE THAN INDICATED IN RECENT WASHINGTON
ESTIMATES. WE NEED TO ASK WHETHER ANY SPECIAL ASSISTANCE,
SUCH AS BALLOON PAYMENTS ON NEW CCC CREDITS, IS NEEDED
BECAUSE POLAND CANNOT COVER ITS TOTAL BORROWING REQUIREMENTS,
OR WHETHER IT IS MERELY SOUGHT BECAUSE THE "DEMONSTRATION
EFFECT" OF USG SUPPORT COULD HELP THE GOP OBTAIN LOWER
INTEREST RATES. END SUMMARY.

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3. WE ARE GLAD THAT SPASOWSKI HAS REALIZED THE NEED FOR
REGULARIZED FINANCIAL CONSULTATIONS APART FROM THE TRADE
COMMISSION MEETINGS. MINISTRY OF FOREIGN TRADE OFFICIALS
HAVE TOLD US THAT PRUCHNIEWICZ RAISED THE QUESTION OF
RESCHEDULING CCC DEBT WITH DAS LUERS "AT THE URGING OF VICE
MINISTER OF FINANCE KRZAK." REGARDLESS OF WHETHER THE INITI-

ACTIVE CAME FROM THE MINISTRY OF FINANCE OR NOT, THE SUBJECT NEEDS TO BE HANDLED IN A MORE ORDERLY FASHION.

4. OUR COMMENTS ON THE INFORMATION SUPPLIED ON MAY 27 BY THE MINISTRY OF FINANCE, AND OUR RECOMMENDATIONS FOR FURTHER DISCUSSIONS, FOLLOW.

5. THE FINANCIAL DATA SUPPLIED BY FINANCE MINISTER KISIEL LAST DECEMBER, TOGETHER WITH THE MAY 27 CLARIFICATION PROVIDED BY THE MINISTRY, INDICATE THAT POLAND'S GROSS FOREIGN DEBT STOOD AT \$12.2 BILLION AT THE END OF 1977. IF POLAND IS FORTUNATE ENOUGH TO RAISE EXPORTS BY 10 PERCENT ANNUALLY AND HOLD IMPORTS CONSTANT, AS IT PLANS, ITS DEBT WOULD RISE TO AT LEAST \$15 BILLION BY YEAR-END 1979. POLAND'S DEBT-SERVICE RATIO (REPAYMENTS OF PRINCIPAL AND INTEREST AS A PERCENT OF HARD-CURRENCY MERCHANDISE AND SERVICE EXPORTS) WILL BE ABOUT 45 PERCENT IN BOTH 1978 AND 1979 AND FALL TO BELOW 40 PERCENT IN 1980. THE GOP WILL APPARENTLY NEED TO BORROW ABOUT \$4 BILLION THIS YEAR, BUT ONLY ABOUT \$3 BILLION IN 1979.

6. THESE DEBT FIGURES ARE BAD BUT ARE BELOW THE RECENT ESTIMATES OF SOME WASHINGTON AGENCIES, WHICH SHOW A DBT SERVICE RATIO OF 60 PERCENT, TOTAL DEBT RISING TO OVER \$19 BILLION BY 1980, AND TOTAL BORROWING REQUIREMENTS OF
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\$5 BILLION IN 1978. THE DISCREPANCIES ARE DUE TO THE FAILURE OF THE WASHINGTON ESTIMATES TO TAKE INTO ACCOUNT POLAND'S EXPORTS OF SERVICES AND EXPORTS TO LDC'S IN GENERAL, WHICH ROSE BY 27 PERCENT AND 14 PERCENT, RESPECTIVELY, IN 1977. POLAND'S EXPORTS ON THE TOTAL CURRENT ACCOUNT CONSEQUENTLY ROSE BY 15 PERCENT LAST YEAR, CONSIDERABLY FASTER THAN THE 10 PERCENT GROWTH IN MERCHANDISE EXPORTS WHICH WE HAD PREVIOUSLY FOCUSED ON. ONE IMPORTANT FACTOR IN POLAND'S SERVICE "EXVGRTS" IS THE GROWING NUMBER OF CONSTRUCTION CONTRACTS WHICH ITS FIRMS HAVE BEEN LANDING IN IRAN, LIBYA, AND OTHER COUNTRIES. IF THIS SUCCESS CONTINUES, THE GOP SHOULD BE ABLE TO ACHIEVE ITS GOAL OF A 10 PERCENT ANNUAL INCREASE IN HARD-CURRENCY INFLOWS MUCH MORE EASILY THAN PREVIOUSLY ESTIMATED.

7. IF THE ABOVE FIGURES ARE ACCURANT, POLAND SHOULD BE ABLE TO MEET ITS TOTAL BORROWING REQUIREMENTS OF \$4 BILLION FOR THIS YEAR WITHOUT SPECIAL ASSISTANCE FROM THE USG. THIS STATEMENT ASSUMES, HOWEVER, THAT POLAND WILL BE SUCCESSFUL

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C O N F I D E N T I A L SECTION 2 OF 2 WARSAW 5175

EXDIS

IN LANDING A FINANCIAL CREDIT IN EXCESS OF \$500 MILLION LATER THIS YEAR. POLAND HAS BEGUN DISCUSSIONS WITH WESTERN BANKS IN THIS REGARD, AND THIS SUBJECT WILL BE ADDRESSED IN A SEPARATE MESSAGE. IF OUR ASSESSMENT IS ACCURATE, HOWEVER, IT RAISES THE QUESTION OF WHETHER THE GOP REALLY NEEDS SPECIAL ASSISTANCE FROM THE USG TO COVER ITS FINANCNG NEEDS, OR WHETHER ANY ASSISTANCE WOULD MERELY PROVIDE SOME ADDITIONAL BREATHING ROOM AND, POSSIBLY, BETTER INTEREST RATES ON LOANS FROM WESTERN BANKS.

8. FURTHER CONSULATIONS: THE RESPONSES OF THE MINISTRY OF FINANCE TO OUR QUESTIONS ARE AMBIGUOUS OR INADEQUATE IN SEVERAL KEY POINTS WHICH CAN AFFECT OUR ASSESSMENT OF THE GOP'S CREDIT WORTHINESS OR ITS NEED FOR SPECIAL HELP. WE SHOULD TELL THE MINISTRY VERY SOON THAT WE WANT FURTHER INFORMATION IN THE FOLLOWING AREAS. WE SHOULD AT THE SAME TIME ASK FOR CONSULTATIONS IN WASHINGTON TO ASSURE THAT THESE QUESTIONS HAVE BEEN RESOLVED BEFORE DECISIONS ARE TAKEN ON CCC OR OTHER CREDITS IN THE NEW FISCAL YEAR. THE POLISH SIDE SHOULD INCLUDE REPRESENTATIVES FROM THE MINISTRY OF FINANCE AND THE BANK HANDLOWY AT THE LEVEL OF OFFICE DIRECTOR OR SENIOR COUNSELOR, OR HIGHER.

9. SOME OF THE POINTS WHICH NEED FURTHER CLARIFICATION ARE:

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A. THE AMOUNT OF CLEARING-ACCOUNT TRADE. WE SHOULD NOT ACCEPT THE OFF-THE-CUFF ESTIMATES OF "6 PERCENT TO 10 PERCENTR OF OUR EXPORTS" GIVEN BY KISIEL AND COUNSELOR KOSINSKI.

A MARGIN OF ERROR OF 5 PERCENT ON TOTAL MERCHANDISE EXPORTS, COMPOUNDED OVER THE 1976-1979 PERIOD, WOULD MAKE A DIFFERENCE OF \$1 BILLION IN THE ESTIMATED LEVEL OF POLAND'S HARD-CURRENCY DEBT.

B. OUTSTANDING LINES OF CREDIT. KOSINSKI ESTIMATED THAT THE GOP HAD ABOUT \$5 BILLION IN OUTSTANDING, UNUTILIZED CREDITS FROM WESTERN GOVERNMENTS AND BANKS. THIS FIGURE IS ALMOST \$2 BILLION HIGHER THAN ESTIMATED IN A RECENT DEPARTMENT OF COMMERCE STUDY. IF KOSINSKI'S FIGURE IS ACCURATE, IT COULD HAVE AN IMPORTANT BEARING ON THE GOP'S ABILITY TO FINANCE ITS DEBT WITHOUT RESCHEDULING. WE SHOULD INSIST ON HAVING THIS FIGURE BROKEN DOWN FOR GOVERNMENT AND PRIVATE LENDERS AND BY COUNTRY IN THE FORMER CASE. THE CREDITS SHOULD BE LISTED IN DOLLAR-EQUIVALENTS, WITH EXCHANGE RATES SPECIFIED, RATHER THAN IN THE VARIOUS CURRENCIES AS GIVEN IN KISIEL'S PRESENTATION LAST DECEMBER.

C. INTEREST REPAYMENTS. WE NOW KNOW THAT REPAYMENTS OF INTEREST ARE INCLUDED IN THE GOP'S FIGURES FOR THE SERVICE ACCOUNT, BUT WE DO NOT KNOW THE SIZE OF THESE PAYMENTS. THESE SHOULD BE PROVIDED SEPARATELY SO THAT AN ACCURATE ESTIMATE OF POLAND'S NET BORROWING REQUIREMENTS CAN BE MADE.

D. SERVICE EARNINGS. SERVICE INCOME ROSE REMARKABLY IN 1977. GIVEN THE SMALL BASE OF THESE EXPORTS, SUCH RAPID GROWTH IS POSSIBLE. WE SHOULD ASK FOR A BREAKDOWN OF THIS ACCOUNT, HOWEVER, TO LEARN WHERE THE MAIN SOURCE OF INCREASE (TRANSPORT, FOREIGN CONSTRUCTION, OR OTHER) LIES AND HOW STABLE THE GROWTH RATE MAY BE.
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E. PROJECTIONS THROUGH 1983. WE SHOULD PRESS FOR THE GOP'S REVISED TRADE PROJECTIONS, AND ALSO FOR AN EXPLANATION AS TO HOW THEY RELATE TO NEW TARGETS FOR DOMESTIC PRODUCTION AND INCOME GROWTH. SLOWDOWN IN THE GOP'S PLANNED RATE OF GROWTH IN THE FIRST QUARTER HAS BEEN PARTIALLY BLAMED ON IMPORT CUTBACKS, RAISING THE QUESTION OF WHETHER THE TRADE PROJECTIONS ARE CONSISTENT WITH OTHER PARTS OF THE GOVERNMENT'S ECONOMIC POLICY.

10. WE SHOULD ALSO CONSIDER WHETHER WE NEED ESTIMATES OF POLAND'S HARD-CURRENCY RESERVES AND HARD-CURRENCY POSITION WITH COMECON BANKS. KISIEL SAID THIS WOULD BE DIFFICULT TO GIVE, BUT THAT HE HOPED THIS WOULD BE POSSIBLE LATE IN 1978.
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